EXHIBIT A CONTINUED

Table of Contents

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Advertising

Cooperative advertising obligations are accrued and the costs expensed at the same time the related revenue is recognized. All other advertising costs are expensed as incurred. Cooperative advertising expenses are recorded as marketing, general and administrative expense to the extent that an advertising benefit separate from the revenue transaction can be identified and the cash paid does not exceed the fair value of that advertising benefit received. Any excess of cash paid over the fair value of the advertising benefit received is recorded as a reduction in revenue. Advertising expense was $2.1 billion in 2004 ($1.8 billion in 2003 and $1.7 billion in 2002).

Employee Equity Incentive Plans

The company has employee equity incentive plans, which are described more fully in "Note 11: Employee Equity Incentive Plans." Intel accounts for its equity incentive plans under the intrinsic value recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. The exercise price of options is equal to the market price of Intel common stock (defined as the average of the high and low trading prices reported by The NASDAQ Stock Market*) on the date of grant. Accordingly, no stock–based compensation, other than acquisition–related compensation, is recognized in net income. The following table illustrates the effect on net income and earnings per share as if the company had applied the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock–Based Compensation," as amended, to options granted under the stock option plans and rights to acquire stock granted under the company's Stock Participation Plan, collectively called "options." For purposes of this pro–forma disclosure, the value of the options is estimated using a Black–Scholes option pricing model and amortized ratably to expense over the options' vesting periods. Because the estimated value is determined as of the date of grant, the actual value ultimately realized by the employee may be significantly different.

(In Millions—Except Per Share Amounts)	2004	2003	2002
Net income, as reported	$7,516	$5,641	$3,117
Less: total stock–based employee compensation expense determined under the fair value method for all awards, net of tax	1,271	991	1,170
Pro–forma net income	$6,245	$4,650	$1,947
Reported basic earnings per common share	$ 1.17	$ 0.86	$ 0.47
Pro–forma basic earnings per common share	$ 0.98	$ 0.71	$ 0.29
Reported diluted earnings per common share	$ 1.16	$ 0.85	$ 0.46
Pro–forma diluted earnings per common share	$ 0.97	$ 0.71	$ 0.29

It is the company's policy under SFAS No. 123 to periodically make adjustments to pro–forma compensation expense to reflect forfeitures. Based on recent forfeiture data, the company recognized additional pro–forma compensation expense and related tax effects totaling $58 million in 2004. The company reversed previously recognized pro–forma compensation expense and related tax effects totaling $190 million in 2003 and $87 million in 2002.

SFAS No. 123 requires the use of option pricing models that were not developed for use in valuing employee stock options. The Black–Scholes option pricing model was developed for use in estimating the fair value of short–lived exchange–traded options that have no vesting restrictions and are fully transferable. The company's employee stock options have characteristics significantly different from those of traded options. In addition, option pricing models require the input of highly subjective assumptions, including the option's expected life and the price volatility of the underlying stock, and changes in the subjective input assumptions can materially affect the fair value estimate of employee stock options.

Table of Contents

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The weighted average estimated value of employee stock options granted during 2004 was $10.79 ($9 02 in 2003 and $10 89 in 2002). The value of options ranted in 2004, 2003 and 2002 was estimated at the date of grant using the following weighted average assumptions:

	2004	2003	2002
Expected life (in years)	4.2	4.4	6.0
Risk–free interest rate	3.0%	2.2%	3.7%
Volatility	.50	.54	.49
Dividend yield	.6%	4%	.3%

An analysis of historical information is used to determine the company's assumptions, to the extent that historical information is relevant based on the terms of the grants being issued in any given period Options granted in 2004 and 2003 generally vest over four years, while options granted during 2002 generally vest five years from the date of grant

Under the Stock Participation Plan, rights to purchase shares are granted during the first and third quarter of each year only. The estimated weighted average value of rights granted under the Stock Participation Plan during 2004 was $6 38 ($5.65 during 2003 and $7 23 in 2002). The value of rights granted during 2004, 2003 and 2002 was estimated at the date of grant using the following weighted average assumptions:

	2004	2003	2002
Expected life (in years)	.5	.5	.5
Risk–free interest rate	1.4%	1.1%	1.8%
Volatility	.30	.50	.50
Dividend yield	.6%	4%	.3%

Recent Accounting Pronouncements

In March 2004, the FASB approved the consensus reached on the Emerging Issues Task Force (EITF) Issue No. 03–1, "The Meaning of Other–Than–Temporary Impairment and Its Application to Certain Investments." The Issue's objective is to provide guidance for identifying other–than–temporarily impaired investments. EITF 03–1 also provides new disclosure requirements for investments that are deemed to be temporarily impaired. In September 2004, the FASB issued a FASB Staff Position (FSP) EITF 03–1–1 that delays the effective date of the measurement and recognition guidance in EITF 03–1 until further notice The disclosure requirements of EITF 03–1 are effective with this annual report for fiscal 2004 Once the FASB reaches a final decision on the measurement and recognition provisions, the company will evaluate the impact of the adoption of the accounting provisions of EITF 03–1

In December 2004, the FASB issued SFAS No 123R, "Share–Based Payment." SFAS No 123R requires employee stock options and rights to purchase shares under stock participation plans to be accounted for under the fair value method, and eliminates the ability to account for these instruments under the intrinsic value method prescribed by APB Opinion No 25, and allowed under the original provisions of SFAS No 123. SFAS No 123R requires the use of an option pricing model for estimating fair value, which is amortized to expense over the service periods The requirements of SFAS No 123R are effective for fiscal periods beginning after June 15, 2005 If the company had applied the provisions of SFAS No. 123R to the financial statements for the period ending December 25, 2004, net income would have been reduced by approximately $1 3 billion. SFAS No 123R allows for either prospective recognition of compensation expense or retrospective recognition, which may be back to the original issuance of SFAS No 123 or only to interim periods in the year of adoption. The company is currently evaluating these transition methods.

Note 3: Earnings Per Share

The shares used in the computation of the company's basic and diluted earnings per common share were as follows:

(In Millions)	2004	2003	2002
Weighted average common shares outstanding	6,400	6,527	6,651
Dilutive effect of employee stock options	94	94	108
Weighted average common shares outstanding, assuming dilution	6,494	6,621	6,759

Table of Contents

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Weighted average common shares outstanding, assuming dilution, include the incremental shares that would be issued upon the assumed exercise of stock ptions. For 2004, approximately 357 million of the company's stock options were excluded from the calculation of diluted earnings per share because the exercise prices of the stock options were greater than or equal to the average price of the common shares, and therefore their inclusion would have been anti-dilutive (418 million in 2003 and 387 million in 2002). These options could be dilutive in the future if the average share price increases and is greater than the exercise price of these options.

Note 4: Common Stock Repurchase Program

The company has an ongoing authorization, as amended, from the Board of Directors to repurchase up to 2 8 billion shares of Intel's common stock in open market or negotiated transactions, including the 2004 authorization to purchase an additional 500 million shares. During 2004, the company repurchased 301 million shares of common stock at a cost of $7.5 billion (176 million shares at a cost of $4.0 billion during 2003, and 183 million shares at a cost of $4 0 billion during 2002). Since the program began in 1990, the company has repurchased and retired approximately 2.2 billion shares at a cost of approximately $42 billion As of December 25, 2004, approximately 614 million shares remained available for repurchase under the existing repurchase authorization

Note 5: Borrowings

Short-Term Debt

Short-term debt included non-interest-bearing drafts payable of $168 million and the current portion of long-term debt of $33 million as of December 25, 2004 (drafts payable of $143 million and the current portion of long-term debt of $81 million as of December 27, 2003) The company also borrows under a commercial paper program. Maximum borrowings under the company's commercial paper program reached $550 million during 2004 and $30 million during 2003, and did not exceed authorized borrowings of $3.0 billion. No commercial paper was outstanding as of December 25, 2004 or December 27, 2003. The company's commercial paper is rated A-1+ by Standard & Poor's and P-1 by Moody's.

Long-Term Debt

Long-term debt at fiscal year-ends was as follows:

(In Millions)	2004	2003
Payable in U.S. dollars:		
Zero coupon senior exchangeable notes due 2004	$ —	$ 41
Other debt	1	1
Payable in other currencies:		
Euro debt due 2005-2018 at 1.5%-11%	735	975
	736	1,017
Less current portion of long-term debt	(33)	(81)
Total long-term debt	$ 703	$ 936

During 2001, the company issued zero coupon senior exchangeable notes (Intel notes) in order to partially mitigate the equity market risk of Intel's investment in Samsung Electronics Co., Ltd. convertible notes. The exchange option was accounted for as an equity derivative and marked-to-market with the fair value recorded in long-term debt The Intel notes matured in February 2004.

The Euro borrowings were made in connection with the financing of manufacturing facilities and equipment in Ireland, and Intel has invested the proceeds in Euro-denominated loan participation notes of similar maturity to hedge currency and interest rate exposures. During 2004, the company retired $273 million of the Euro borrowings prior to their maturity dates through the simultaneous settlement of an equivalent amount of investments in loan participation notes (see "Note 8: Interest and Other, Net")

As of December 25, 2004, aggregate debt maturities were as follows: 2005—$33 million; 2006—$39 million; 2007—$41 million; 2008—$128 million; 2009—$43 million; and thereafter—$452 million

Table of Contents

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 6: Investments

Trading Assets

Trading assets outstanding at fiscal year–ends were as follows:

	2004		2003	
(In Millions)	Net Unrealized Gains	Estimated Fair Value	Net Unrealized Gains	Estimated Fair Value
Debt instruments	$ 187	$ 2,772	$ 174	$ 2,321
Equity securities offsetting deferred compensation	81	339	60	304
Total trading assets	$ 268	$ 3,111	$ 234	$ 2,625

Net holding gains on fixed income debt instruments classified as trading assets were $80 million in 2004, $208 million in 2003 and $79 million in 2002. Net holding losses on the related derivatives were $(77) million in 2004, $(192) million in 2003 and $(75) million in 2002. These amounts were included in interest and other, net in the consolidated statements of income

Certain equity securities within the trading asset portfolio are maintained to generate returns that seek to offset changes in liabilities related to the equity market risk of certain deferred compensation arrangements. These deferred compensation liabilities were $458 million in 2004 and $427 million in 2003, and are included in other accrued liabilities on the consolidated balance sheets. Net holding gains (losses) on equity securities offsetting deferred compensation arrangements were $29 million in 2004, $52 million in 2003 and $(64) million in 2002, and were included within interest and other, net in the consolidated statements of income

Prior to 2004, the company held certain other marketable equity securities which were included in trading assets. Net holding gains on these equity security trading assets were $77 million in 2003 and $57 million in 2002. The $57 million net gain in 2002 included a gain of $120 million that resulted from the designation of formerly restricted equity investments as trading assets as they became marketable. The cumulative difference between their cost and fair market value at the time they became marketable was recorded as a gain in 2002. Net holding gains (losses) on the related derivatives were $(84) million in 2003 and 110 million in 2002. These gains and losses were included within losses on equity securities, net in the consolidated statements of income

Table of Contents

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Available–for–Sale Investments

Available–for–sale investments at December 25, 2004 were as follows:

(In Millions)	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Commercial paper	$ 9,024	$ —	$ (4)	$ 9,020
Floating rate notes	3,419	—	(1)	3,418
Bank time deposits	1,936	—	—	1,936
Corporate bonds	794	—	—	794
Marketable strategic equity securities	589	118	(51)	656
Preferred stock and other equity	200	—	—	200
Other debt securities	234	—	—	234
Total available–for–sale investments	**$16,196**	**$ 118**	**$ (56)**	**$ 16,258**

	Carrying Amount
Available–for–sale investments	$ 16,258
Cost basis investments in loan participation notes	723
Cash on hand	299
Total	**$ 17,280**
Reported as:	
Cash and cash equivalents	$ 8,407
Short–term investments	5,654
Marketable strategic equity investments	656
Other long–term investments	2,563
Total	**$ 17,280**

Available–for–sale investments at December 27, 2003 were as follows:

(In Millions)	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Commercial paper	$ 9,948	$ —	$ (1)	$ 9,947
Bank time deposits	1,900	—	—	1,900
Floating rate notes	1,078	—	—	1,078
Corporate bonds	703	—	—	703
Marketable strategic equity securities	467	47	—	514
Preferred stock and other equity	224	9	—	233
Other debt securities	352	—	—	352
Total available–for–sale investments	**$14,672**	**$ 56**	**$ (1)**	**$ 14,727**

	Carrying Amount
Available–for–sale investments	$ 14,727
Cost basis investments in loan participation notes	985
Cash on hand	207
Total	**$ 15,919**
Reported as:	
Cash and cash equivalents	$ 7,971
Short–term investments	5,568
Marketable strategic equity investments	514
Other long–term investments	1,866

Total	**$ 15,919**

Table of Contents

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The duration of the unrealized losses on available-for-sale investments at December 25, 2004 did not exceed 12 months. The company's unrealized losses of `51 million on investments in marketable strategic equity securities at December 25, 2004 related primarily to a $450 million investment in Micron Technology, ınc. The unrealized losses were due to market-price movements. Management does not believe that any of the unrealized losses represented an other-than-temporary impairment based on its evaluation of available evidence as of December 25, 2004.

The company sold available-for-sale securities, primarily equity securities, with a fair value at the date of sale of $85 million in 2004, $39 million in 2003 and $114 million in 2002. The gross realized gains on these sales totaled $52 million in 2004, $16 million in 2003 and $15 million in 2002. The company recognized impairment losses on available-for-sale and non-marketable investments of $117 million in 2004, $319 million in 2003 and $524 million in 2002.

The amortized cost and estimated fair value of available-for-sale and loan participation investments in debt securities at December 25, 2004, by contractual maturity, were as follows:

(In Millions)	Cost	Estimated Fair Value
Due in 1 year or less	$13,667	$ 13,662
Due in 1–2 years	1,375	1,375
Due in 2–5 years	646	646
Due after 5 years	442	442
Total	$16,130	$ 16,125

Note 7: Concentrations of Credit Risk

Financial instruments that potentially subject the company to concentrations of credit risk consist principally of investments in debt securities, derivative financial instruments and trade receivables.

Intel generally places its investments with high-credit-quality counterparties and, by policy, limits the amount of credit exposure to any one counterparty based on Intel's analysis of that counterparty's relative credit standing. Investments in debt securities with original maturities of greater than six months consist primarily of A and A2 or better rated financial instruments and counterparties. Investments with original maturities of up to six months consist primarily of A-1 ˀnd P-1 or better rated financial instruments and counterparties. Government regulations imposed on investment alternatives of Intel's non-U.S. subsidiaries, or .e absence of A and A2 rated counterparties in certain countries, result in some minor exceptions, which are reviewed and approved annually by the Finance Committee of the Board of Directors. Credit rating criteria for derivative instruments are similar to those for investments. The amounts subject to credit risk related to derivative instruments are generally limited to the amounts, if any, by which a counterparty's obligations exceed the obligations of Intel with that counterparty. At December 25, 2004, the total credit exposure to any single counterparty did not exceed $350 million. Intel's practice is to obtain and secure available collateral from counterparties against obligations, including securities lending transactions, whenever Intel deems appropriate.

A majority of the company's trade receivables are derived from sales to original equipment manufacturers and original design manufacturers of computer systems, cellular handsets and handheld computing devices, and networking and communications equipment. The company also has accounts receivable derived from sales to industrial and retail distributors. The company's three largest customers accounted for approximately 42% of net revenue for 2004 and 2003 (38% of net revenue for 2002). At December 25, 2004, the three largest customers accounted for approximately 45% of net accounts receivable (43% of net accounts receivable at December 27, 2003). Management believes that the receivable balances from these largest customers do not represent a significant credit risk based on cash flow forecast, balance sheet analysis and past collection experience.

The company has adopted credit policies and standards intended to accommodate industry growth and inherent risk. Management believes that credit risks are moderated by the financial stability of the company's end customers and the diverse geographic sales areas. To assess the credit risk of counterparties, a quantitative and qualitative analysis is performed. From this analysis, credit limits are established and a determination is made whether one or more credit support devices, such as obtaining some form of third-party guarantee or standby letter of credit, or obtaining credit insurance for all or a portion of the account balance, is necessary.

Table of Contents

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 8: Interest and Other, Net

The components of interest and other, net were as follows:

(In Millions)	2004	2003	2002
Interest income	$301	$248	$298
Interest expense	(50)	(62)	(84)
Other, net	38	6	(20)
Total	$289	$192	$194

During 2004, the company recognized approximately $60 million of gains in other, net associated with terminating financing arrangements for manufacturing facilities and equipment in Ireland (see "Note 5: Borrowings").

Note 9: Comprehensive Income

The components of other comprehensive income and related tax effects were as follows:

(In Millions)	2004	2003	2002
Net income	$7,516	$5,641	$3,117
Change in net unrealized holding gain on investments, net of tax of $(17), $(18) and $24 in 2004, 2003 and 2002, respectively	31	33	(44)
Less: adjustment for net realized gain or loss on investments included in net income, net of tax of $15, $5 and $(14) in 2004, 2003 and 2002, respectively	(29)	(11)	25
Change in net unrealized holding gain on derivatives, net of tax of $(34), $(15) and $(23) in 2004, 2003 and 2002, respectively	63	27	43
Less: adjustment for amortization of net gain on derivatives included in net income, net of tax of $4 in 2004	(8)	(1)	—
Minimum pension liability, net of tax of $(2) and $2 in 2003 and 2002, respectively	(1)	5	(6)
Total	$7,572	$5,694	$3,135

The components of accumulated other comprehensive income, net of tax, were as follows:

(In Millions)	2004	2003
Accumulated net unrealized holding gain on available-for-sale investments	$ 37	$ 35
Accumulated net unrealized holding gain on derivatives	117	62
Accumulated minimum pension liability	(2)	(1)
Total accumulated other comprehensive income	$152	$ 96

Table of Contents

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 10: Provision for Taxes

Income before taxes and the provision for taxes consisted of the following:

(Dollars in Millions)	2004	2003	2002
Income before taxes:			
U.S.	$ 7,422	$ 5,705	$ 2,165
Non–U.S.	2,995	1,737	2,039
Total income before taxes	**$10,417**	**$ 7,442**	**$ 4,204**
Provision for taxes:			
Current:			
Federal	$ 2,787	$ 808	$ 542
State	(69)	223	143
Non–U.S.	390	379	292
	3,108	1,410	977
Deferred:			
Federal	(128)	420	91
Other	(79)	(29)	19
	(207)	391	110
Total provision for taxes	**$ 2,901**	**$ 1,801**	**$ 1,087**
Effective tax rate	**27.8%**	**24.2%**	**25.9%**

The tax benefit from employee stock plans was $344 million for 2004 ($216 million for 2003 and $270 million for 2002)

The difference between the tax provision at the statutory federal income tax rate and the tax provision attributable to income before income taxes was as follows:

(In Percentages)	2004	2003	2002
Statutory federal income tax rate	35.0%	35.0%	35.0%
Increase (reduction) in rate resulting from:			
State taxes, net of federal benefits	(0.4)	1.9	2.2
Non–U.S. income taxed at different rates	(2.5)	(2.8)	(5.9)
Non–deductible acquisition–related costs and goodwill impairments	0.1	3.1	1.3
Tax benefit related to divestitures	—	(10.2)	(1.8)
Export sales benefit	(4.8)	(2.5)	(3.0)
Other	0.4	(0.3)	(1.9)
Income tax rate	**27.8%**	**24.2%**	**25.9%**

During 2004, in connection with preparing and filing its 2003 federal tax return and preparing its state tax returns, the company reduced its 2004 tax provision by $195 million This reduction in the 2004 tax provision was primarily driven by tax benefits for export sales and state tax benefits for divestitures that exceeded the amounts originally estimated in connection with the 2003 provision Also during 2004, the company reversed previously accrued taxes related primarily to the closing of a state income tax audit that reduced the tax provision for 2004 by $62 million

The company reduced its tax provision for 2003 by approximately $758 million due to the tax benefits related to the sale of certain businesses and assets through the sale of stock of acquired companies ($75 million in 2002) See "Note 13: Acquisitions and Divestitures"

In 2001, the U S Internal Revenue Service (IRS) commenced an examination of Intel's tax returns for the years 1999 and 2000 In August 2003, the IRS proposed certain adjustments primarily related to the amounts reflected by Intel on these returns as a tax benefit for its export sales (see "Note 18: Contingencies") Subsequently, in January 2005, the IRS issued formal assessments for these adjustments The company does not agree with these adjustments and intends to appeal the assessments

Table of Contents

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes nd the amounts used for income tax purposes. Significant components of the company's deferred tax assets and liabilities at fiscal year-ends were as follows:

(In Millions)	2004	2003
Deferred tax assets (liabilities)		
Accrued compensation and other benefits	$ 265	$ 218
Accrued advertising	115	107
Acquired intangibles	(26)	(68)
Deferred income	232	245
Depreciation	(894)	(1,272)
Impairment losses on equity investments	110	106
Inventory valuation	193	156
Unrealized gains on investments	(82)	(50)
Other, net	286	45
	199	(513)
Valuation allowance	(75)	—
Net deferred tax assets (liabilities)	**$ 124**	**$ (513)**
Reported as:		
Current deferred tax assets	$ 979	$ 969
Long-term deferred tax liabilities	(855)	(1,482)
Net deferred taxes	**$ 124**	**$ (513)**

Gross deferred tax assets as of December 25, 2004 were reduced by a valuation allowance of $75 million related to certain state capital loss carryforwards and state credit carryforwards, as recovery of these assets is not likely. In addition, the company reclassified $445 million from deferred tax liabilities to common :ock and capital stock in excess of par value. The balance sheet reclassification represented the tax benefit attributable to certain prior-year stock option exercises by non-U.S. employees and had no impact on the accompanying statement of cash flows.

U.S. income taxes were not provided for on a cumulative total of approximately $7.9 billion of undistributed earnings for certain non-U.S. subsidiaries. The company currently intends to reinvest these earnings in operations outside the U.S. The American Jobs Creation Act of 2004 (the Jobs Act) creates a temporary incentive for U.S. corporations to repatriate accumulated income earned abroad by providing an 85% dividends-received deduction for certain dividends from controlled foreign corporations. The deduction is subject to a number of limitations, and currently the company is uncertain as to how to interpret numerous provisions in the Jobs Act. The company is not yet in a position to decide whether, and to what extent, foreign earnings that have not yet been remitted to the U.S. might be repatriated. Based on the analysis to date, however, it is reasonably possible that as much as $6.0 billion might be repatriated, with a respective tax liability of up to $475 million. The company expects to be in a position to finalize its analysis by October 2005.

Table of Contents

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 11: Employee Equity Incentive Plans

Stock Option Plans

In May 2004, stockholder approval was obtained for the 2004 Equity Incentive Plan (the 2004 Plan). Under the 2004 Plan, 240 million shares of common stock were made available for issuance during the two–year period ending June 30, 2006. Under the 2004 Plan, options to purchase shares may be granted to all employees and non–employee directors. Intel may also use other types of equity incentive awards, such as restricted stock, stock units and stock appreciation rights. The 2004 Plan also allows for performance–based vesting for equity incentive awards. The Intel Corporation 1984 Stock Option Plan expired in May 2004, and the Intel Corporation 1997 Stock Option Plan was terminated upon stockholder approval of the 2004 Plan. As of December 25, 2004, substantially all of the company's employees were participating in one of the stock option plans. Options granted by the company under the 2004 Plan will generally expire seven years from the grant date. Options granted under the company's previous stock option plans generally expire ten years from the grant date. Options granted in 2004 to existing and newly hired employees generally vest over a four–year period from the date of grant. Certain grants to key employees have delayed vesting, generally beginning six years from the date of grant. In prior years, Intel also assumed the stock option plans and the outstanding options of certain acquired companies. No additional stock grants will be made under these assumed plans. Additional information with respect to stock option plan activity is as follows:

		Outstanding Options	
(Shares in Millions)	Shares Available for Grant	Number of Shares	Weighted Average Exercise Price
December 29, 2001	**1,054.6**	**768.5**	**$ 25.33**
Supplemental grant	(118.1)	118.1	$ 20.23
Other grants	(55.5)	55.5	$ 25.43
Exercises	—	(51.4)	$ 6.79
Cancellations	40.8	(45.3)	$ 33.56
December 28, 2002	**921.8**	**845.4**	**$ 25.31**
Grants	(109.9)	109.9	$ 20.22
Exercises	—	(63.7)	$ 10.08
Cancellations	40.0	(41.5)	$ 30.49
Reduction in shares available for grant	(325.0)	—	—
December 27, 2003	**526.9**	**850.1**	**$ 25.54**
Grants	(114.7)	114.7	$ 26.23
Exercises	—	(48.4)	$ 10.89
Cancellations	11.5	(32.5)	$ 30.00
Expiration of 1984 Stock Option Plan	(143.2)	—	—
Cancellation of 1997 Stock Option Plan	(300.1)	—	—
Adoption of 2004 Equity Incentive Plan	240.0	—	—
December 25, 2004	**220.4**	**883.9**	**$ 26.26**
Options exercisable at:			
December 28, 2002		274.0	$ 16.57
December 27, 2003		327.5	$ 20.53
December 25, 2004		397.5	$ 23.83

In December 2003, the Board of Directors approved a reduction in the number of shares authorized for issuance under the 1997 Stock Option Plan, reducing the number of shares available for issuance by 325 million. In November 2002, a supplemental stock option grant was given to employees who had previously been granted options in 2001 and 2000 that had exercise prices above the November 2002 market price. This 2002 supplemental grant was made in order to retain employees, due to competitive market conditions and a decline in the company's stock price. These 2002 supplemental stock option grants vest in equal amounts over four years.

The range of option exercise prices for options outstanding at December 25, 2004 was $0.05 to $87.90. This range reflects the impact of options assumed with acquired companies in addition to the fluctuating price of Intel common stock.

Table of Contents

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes information about options outstanding at December 25, 2004:

	Outstanding Options			Exercisable Options	
Range of Exercise Prices	Number of Shares (In Millions)	Weighted Average Contractual Life (In Years)	Weighted Average Exercise Price	Number of Shares (In Millions)	Weighted Average Exercise Price
$0.05–$15.00	64.2	1.3	$ 7.65	63.9	$ 7.62
$15.01–$20.00	197.6	5.5	$ 18.22	117.7	$ 18.34
$20.01–$25.00	267.7	7.0	$ 22.32	65.1	$ 20.82
$25.01–$30.00	163.0	8.0	$ 27.22	46.1	$ 26.51
$30.01–$40.00	101.8	5.6	$ 33.41	72.9	$ 33.48
$40 01–$87 90	89 6	5 3	$ 59 27	31.8	$ 56 84
Total	883.9	6.1	$ 26.26	397.5	$ 23.83

These options will expire if not exercised at specific dates through May 2014. Option exercise prices for options exercised during the three–year period ended December 25, 2004 ranged from $0 01 to $36.47.

Stock Participation Plan

In addition to the employee stock option plans, the company has a Stock Participation Plan under which eligible employees may purchase shares of Intel's common stock at 85% of the average of the high and low stock price reported on The NASDAQ Stock Market at specific, predetermined dates. Approximately 70% of the company's employees were participating in the Stock Participation Plan as of December 25, 2004. Of the 944 million shares authorized to be issued under the plan, 67.5 million shares remained available for issuance at December 25, 2004. Employees purchased 18 4 million shares in 2004 (23 8 million in 2003 and 17 0 million in 2002) for $367 million ($328 million in 2003 and $338 million in 2002)

Note 12: Retirement Benefit Plans

Profit Sharing Plans

The company provides tax–qualified profit sharing retirement plans for the benefit of eligible employees, former employees and retirees in the U S and certain other countries. The plans are designed to provide employees with an accumulation of funds for retirement on a tax–deferred basis and provide for annual discretionary employer contributions. Amounts to be contributed to the U S. Profit Sharing Plan are determined by the Chief Executive Officer of the company under delegation of authority from the Board of Directors, pursuant to the terms of the Profit Sharing Plan. As of December 25, 2004, substantially all of the assets of the U.S. Profit Sharing Plan have been allocated to an equity index fund managed by an outside fund manager, consistent with the investment policy.

The company also provides a non–qualified profit sharing retirement plan for the benefit of eligible employees in the U.S. This plan is designed to permit certain discretionary employer contributions and to permit employee deferral of a portion of salaries in excess of certain tax limits and deferral of bonuses. This plan is unfunded.

The company expensed $323 million for the qualified and non–qualified U S. profit sharing retirement plans in 2004 ($302 million in 2003 and $303 million in 2002). The company expects to fund approximately $315 million for the 2004 contribution to the U S qualified Profit Sharing Plan and to allocate approximately $5 million for the U.S. non–qualified profit sharing retirement plan.

Contributions made by the company to the U S. Profit Sharing Plan on behalf of the employees vest based on the employee's years of service. Vesting begins after three years of service in 20% annual increments until the employee is 100% vested after seven years, or earlier, if the employee reaches age 60.

Table of Contents

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Pension and Postretirement Benefit Plans

J.S. Pension Benefits The company provides a tax-qualified defined-benefit pension plan for the benefit of eligible employees and retirees in the U S. The plan provides for a minimum pension benefit that is determined by a participant's years of service and final average compensation (taking into account the participant's social security wage base), reduced by the participant's balance in the Profit Sharing Plan. If the pension benefit exceeds the participant's balance in the Profit Sharing Plan, the participant will receive a combination of pension and profit sharing amounts equal to the pension benefit. However, the participant will receive only the benefit from the Profit Sharing Plan if that benefit is greater than the value of the pension benefit The U.S. defined-benefit plan's projected benefit obligation assumes future contributions to the Profit Sharing Plan, and if the company does not continue to contribute to or significantly reduces contributions to the Profit Sharing Plan, the U.S. defined-benefit plan projected benefit obligation could increase significantly Historically, the company has contributed 8% to 12 5% of participants' eligible compensation to the Profit Sharing Plan on an annual basis. The benefit obligation and related assets under this plan have been measured as of November 30, 2004.

Non-U.S. Pension Benefits. The company also provides defined-benefit pension plans in certain other countries Consistent with the requirements of local law, the company deposits funds for certain of these plans with insurance companies, third-party trustees, or into government-managed accounts, and/or accrues for the unfunded portion of the obligation The assumptions used in calculating the obligation for the non-U.S plans depend on the local economic environment The benefit obligations and related assets under these plans have been measured as of December 25, 2004.

Postretirement Medical Benefits. Upon retirement, eligible U S. employees are credited with a defined dollar amount based on years of service These credits can be used to pay all or a portion of the cost to purchase coverage in an Intel-sponsored medical plan If the available credits are not sufficient to pay the entire cost of the coverage, the remaining cost is the responsibility of the retiree.

Funding Policy. The company's practice is to fund the various pension plans in amounts at least sufficient to meet the minimum requirements of U S. federal laws and regulations or applicable local laws and regulations. The assets of the various plans are invested in corporate equities, corporate debt securities, government securities and other institutional arrangements The portfolio of each plan depends on plan design and applicable local laws. Depending on the design of the plan, local custom and market circumstances, the minimum liabilities of a plan may exceed qualified plan assets The company accrues for all such liabilities

Benefit Obligation and Plan Assets

The changes in the benefit obligations, plan assets and funded status for the plans described above were as follows:

	U.S. Pension Benefits		Non-U.S. Pension Benefits		Postretirement Medical Benefits	
(In Millions)	2004	2003	2004	2003	2004	2003
Change in projected benefit obligation:						
Beginning benefit obligation	$ 49	$ 28	$306	$242	$178	$132
Service cost	2	5	29	26	15	12
Interest cost	2	3	16	18	12	10
Plan participants' contributions	—	—	6	3	2	—
Actuarial (gain) loss	(10)	14	(40)	(15)	(26)	28
Currency exchange rate changes	—	—	17	37	—	—
Benefits paid to plan participants	(1)	(1)	(7)	(5)	(4)	(4)
Ending projected benefit obligation	$ 42	$ 49	$327	$306	$177	$178

Table of Contents

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In Millions)	U.S. Pension Benefits 2004	U.S. Pension Benefits 2003	Non–U.S. Pension Benefits 2004	Non–U.S. Pension Benefits 2003	Postretirement Medical Benefits 2004	Postretirement Medical Benefits 2003
Change in plan assets:						
Beginning fair value of plan assets	$30	$ 23	$ 195	$ 140	$ 2	$ 1
Actual return on plan assets	3	2	4	18	—	—
Employer contributions	7	6	31	15	4	3
Plan participants' contributions	—	—	6	3	2	2
Currency exchange rate changes	—	—	11	23	—	—
Benefits paid to participants	(1)	(1)	(7)	(4)	(4)	(4)
Ending fair value of plan assets	$39	$ 30	$ 240	$ 195	$ 4	$ 2

(In Millions)	U.S. Pension Benefits 2004	U.S. Pension Benefits 2003	Non–U.S. Pension Benefits 2004	Non–U.S. Pension Benefits 2003	Postretirement Medical Benefits 2004	Postretirement Medical Benefits 2003
Funded status:						
Ending funded status	$ (3)	$ (19)	$ (87)	$ (111)	$(173)	$ (176)
Unrecognized transition obligation	—	—	2	2	—	—
Unrecognized net actuarial (gain) loss	5	18	(3)	32	6	33
Unrecognized prior service cost	1	1	—	—	33	36
Net amount recognized	$ 3	$ —	$ (88)	$ (77)	$(134)	$ (107)

The amounts recognized on the balance sheet for the plans described above were as follows:

(In Millions)	U.S. Pension Benefits 2004	U.S. Pension Benefits 2003	Non–U.S. Pension Benefits 2004	Non–U.S. Pension Benefits 2003	Postretirement Medical Benefits 2004	Postretirement Medical Benefits 2003
Amounts recognized in the balance sheet:						
Prepaid benefit cost	$ 3	$ —	$ 40	$ 25	$ —	$ —
Accrued benefit liability	—	—	(131)	(103)	(134)	(107)
Deferred tax asset	—	—	1	—	—	—
Accumulated other comprehensive income	—	—	2	1	—	—
Net amount recognized	$ 3	$ —	$ (88)	$ (77)	$(134)	$ (107)

The accumulated benefit obligations for the plans were as follows:

(In Millions)	U.S. Pension Benefits 2004	U.S. Pension Benefits 2003	Non–U.S. Pension Benefits 2004	Non–U.S. Pension Benefits 2003	Postretirement Medical Benefits 2004	Postretirement Medical Benefits 2003
Accumulated benefit obligation	$38	$ 28	$ 222	$ 224	$ 177	$ 178

Included in the aggregate data in the tables below are the aggregate amounts applicable to the company's pension plans with accumulated benefit obligations in excess of plan assets as well as plans with projected benefit obligations in excess of plan assets Amounts related to such plans were as follows:

(In Millions)	U.S. Pension Benefits 2004	U.S. Pension Benefits 2003	Non–U.S. Pension Benefits 2004	Non–U.S. Pension Benefits 2003
Plans with accumulated benefit obligations in excess of plan assets:				

Accumulated benefit obligations	$ —	$ —	$ 70	$ 148
Plan assets	$ —	$ —	$ 18	$ 87
Plans with projected benefit obligations in excess of plan assets:				
Projected benefit obligations	$ 42	$ 49	$ 296	$ 306
Plan assets	$ 39	$ 30	$ 205	$ 195

Table of Contents

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Assumptions

Weighted–average actuarial assumptions used to determine benefit obligations for the plans were as follows:

	U.S. Pension Benefits		Non–U.S. Pension Benefits		Postretirement Medical Benefits	
	2004	2003	2004	2003	2004	2003
Discount rate	5.6%	6.0%	5.9%	5.5%	5.6%	6.0%
Expected return on plan assets	8.0%	8.0%	6.3%	6.7%	—	—
Rate of compensation increase	5.0%	5.0%	3.5%	3.5%	—	—
Future profit sharing contributions	8.0%	6.0%	—	—	—	—

For the postretirement medical benefit plan, an increase in the assumed healthcare cost trend rate of one percentage point each year would not have a significant impact on the benefit obligation because the plan provides defined credits that the retiree can use to pay all or a portion of the cost to purchase medical coverage.

Weighted–average actuarial assumptions used to determine costs for the plans were as follows:

	U.S. Pension Benefits		Non–U.S. Pension Benefits		Postretirement Medical Benefits	
	2004	2003	2004	2003	2004	2003
Discount rate	6.0%	7.0%	5.9%	5.5%	6.0%	7.0%
Expected return on plan assets	8.0%	8.0%	6.3%	6.7%	—	—
Rate of compensation increase	5.0%	5.0%	3.5%	3.5%	—	—
Future profit sharing contributions	8.0%	6.0%	—	—	—	—

everal factors are considered in developing the asset return assumptions for the U.S. and non–U.S. plans. The company analyzed rates of return relevant to the country where each plan is in effect and the investments applicable to the plan. Additional analysis was performed in order to reflect expectations of future returns. For the U.S. plan, the company analyzed the historical and projected rates of return of the Standard & Poor's 500 Index*. For the non–U.S. plans, the company analyzed local actuarial projections as well as the projected rates of return from investment managers. In addition, the expected long–term rate of return shown for the non–U.S. plan assets is weighted to reflect each country's relative portion of the non–U.S. plan assets.

Net Periodic Benefit Cost

The net periodic benefit cost for the plans included the following components:

	U.S. Pension Benefits			Non–U.S. Pension Benefits			Postretirement Medical Benefits		
(In Millions)	2004	2003	2002	2004	2003	2002	2004	2003	2002
Service cost	$ 4	$ 7	$ 6	$ 29	$ 27	$ 22	$15	$ 12	$ 10
Interest cost	2	2	2	16	18	14	11	10	8
Expected return on plan assets	(2)	(2)	(1)	(14)	(1)	(12)	—	—	—
Amortization of prior service cost	1	1	—	—	—	—	4	4	4
Recognized net actuarial loss	—	1	—	—	1	—	1	—	—
Net periodic benefit cost	$ 5	$ 9	$ 7	$ 31	$ 45	$ 24	$31	$26	$22

Table of Contents

U.S. Plan Assets

..he company's U.S. Pension Plan assets at the end of fiscal 2004 and 2003 were 100% allocated to equity securities. The target allocation for 2005 is expected to remain the same. The long-term rate of return for the equity securities used in these calculations is assumed to be 8%. In general, the investment strategy followed is designed to assure that the pension assets are available to pay benefits as they come due and minimize market risk. The U.S. plan assets are invested in equity securities, primarily in large, diversified domestic and multinational U.S. equities, which seek to match the performance of the S&P 500. When deemed appropriate, a portion of the fund may be invested in futures contracts for the purpose of acting as a temporary substitute for an investment in a particular equity security. The fund does not engage in speculative futures transactions

Non-U.S. Plan Assets

The non-U.S. plans' investments are managed by insurance companies, third-party trustees or pension funds consistent with regulations or market practice of the country where the assets are invested. The investment manager makes investment decisions within the guidelines set by Intel or local regulations. Performance is evaluated by comparing the actual rate of return to the return of other benchmark funds. Investments that are managed by qualified insurance companies or pension funds under standard contracts follow local regulations, and Intel is not actively involved in the investment strategy. In general, the investment strategy followed is designed to accumulate a diversified portfolio among markets, asset classes or individual securities in order to reduce market risk and assure that the pension assets are available to pay benefits as they come due. The average expected long-term rate of return for the non-U.S. plan assets is 6.3%.

The asset allocation for the company's non-U.S. plans, excluding assets managed by qualified insurance companies, at the end of fiscal 2004 and 2003, and the target allocation rate for 2005, by asset category, are as follows:

		Percentage of Plan Assets	
Asset Category	Target Allocation	2004	2003
Equity securities	81.0%	79.0%	80.0%
Debt securities	13.0%	13.0%	12.0%
Other	6.0%	8.0%	8.0%

Investments that are managed by qualified insurance companies are invested as part of the insurance companies' general fund. Intel does not have control over e target allocation of these investments. These investments made up 35% of total non-U.S. plan assets in 2004 and 42% in 2003.

Funding Expectations

No further contributions are required during 2005 under applicable law for the U.S. Pension Plan. The company intends to make voluntary contributions so that assets exceed the accumulated benefit obligation at the end of the year. Expected funding for the non-U.S. plans during 2005 is $31 million. Employer contributions to the postretirement medical benefits plan are expected to be less than $1 million during 2005.

Estimated Future Benefit Payments

The total benefits to be paid from the U.S. and non-U.S. pension plans and other postretirement benefit plans, including the amounts that will be funded from retiree contributions, are not expected to exceed $50 million in any year through 2014.

Note 13: Acquisitions and Divestitures

Business Combinations

All of the company's acquisitions that qualified as business combinations have been accounted for using the purchase method of accounting Consideration includes the cash paid and the value of any options assumed, less any cash acquired, and excludes contingent employee compensation payable in cash and any debt assumed. The company accounts for the intrinsic value of stock options assumed related to future services as unearned compensation within stockholders' equity (see "Note 15: Identified Intangible Assets and Acquisition–Related Unearned Stock Compensation").

During 2004, the company completed an acquisition qualifying as a business combination in exchange for net cash consideration of approximately $33 million, plus certain liabilities. During 2003, the company completed one acquisition qualifying as a business combination in exchange for total cash consideration of approximately $21 million The operating results of the businesses acquired in 2003 and 2004 have been included in the results of the Intel Communications Group (ICG) operating segment from the date of acquisition There were no acquisitions qualifying as business combinations in 2002.

Development–Stage Operations

An acquisition of a development–stage operation does not qualify as a business combination under SFAS No. 141, "Business Combinations," and purchase consideration for such an acquisition is not allocated to goodwill Workforce–in–place qualifies as an identified intangible asset for an acquisition of a development–stage operation

During 2003, the company acquired a development–stage operation in exchange for total cash consideration of approximately $40 million, all of which was allocated to workforce–in–place. During 2002, the company acquired three development–stage operations in exchange for total consideration of approximately $57 million Approximately $35 million was allocated to acquisition–related developed technology and $20 million to purchased in–process research and development, with the remaining amount representing the value of net tangible assets. The operating results of each of these acquisitions since the date of acquisition have been included in the operating results of the acquiring business unit within either the ICG operating segment or the "all other" category, as appropriate, for segment reporting purposes

Divestitures

During 2003, the company recognized approximately $758 million in tax benefits related to sales of the stock of certain previously acquired companies, primarily DSP Communications, Inc. (DSP), Dialogic Corporation and Xircom, Inc. A net benefit of approximately $420 million was recognized on the divestiture of a portion of the intellectual property assets of DSP, through the sale of the stock of DSP. A benefit of approximately $200 million was recognized on the divestiture of a portion of the assets, primarily real estate, of Dialogic, through the sale of the stock of Dialogic, and a benefit of approximately $125 million was recognized related to the sale of a wireless WAN business, through the sale of the stock of Xircom. The pre–tax gains and losses on these sales for financial statement or book purposes were not significant. The company was able to recognize tax losses because the tax basis in the entities exceeded the book basis, as the goodwill allocated to the transactions for financial statement purposes was less than the amount the company could effectively deduct for tax purposes. During 2002, the company recognized a $75 million tax benefit related to sales of the stock of certain previously acquired companies, primarily Ziatech Corporation

Table of Contents

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 14: Goodwill

Goodwill attributed to operating segments for the years ended December 27, 2003 and December 25, 2004 was as follows:

(In Millions)	Intel Communications Group	Intel Architecture Business	All Other	Total
December 28, 2002	$ 4,255	$ 69	$ 6	$4,330
Impairments	(611)	—	(6)	(617)
Additions	3	—	—	3
Other adjustments	(9)	(2)	—	(11)
December 27, 2003	3,638	67	—	3,705
Transfer	(466)	466	—	—
Additions	29	—	—	29
Other adjustments	(15)	—	—	(15)
December 25, 2004	$ 3,186	$ 533	$ —	$3,719

During the first quarter of 2004, the company combined its communications-related businesses, the former Intel Communications Group (ICG) and the Wireless Communications and Computing Group (WCCG), into a single organization, the Intel Communications Group (ICG) (see "Note 19: Operating Segment and Geographic Information"). The ICG operating segment is made up of two reporting units: the flash memory reporting unit and the ICG reporting unit. All of the ICG operating segment goodwill is included in the ICG reporting unit. Also during the first quarter of 2004, the consumer electronics business, which was previously part of the former ICG operating segment, was moved into the Intel Architecture business. Based on the estimated fair value of the consumer electronics business relative to the former ICG reporting unit, goodwill of $466 million was transferred to the Intel Architecture business.

During the fourth quarter of 2004, the company completed its annual review and determined that the fair value of the ICG reporting unit was in excess of its carrying value; therefore, goodwill was not impaired. During 2003, the company completed its impairment review for goodwill for the former ICG and WCCG reporting units and found indicators of impairment for the WCCG reporting unit. The WCCG business, comprising primarily flash memory products and cellular baseband chipsets, had not performed as management had expected, and it became apparent that WCCG was expected to grow more slowly than had previously been projected. A slower-than-expected rollout of products and slower-than-expected customer acceptance of the reporting unit's products in the baseband chipset business, as well as a delay in the transition to next-generation phone networks, had pushed out the forecasts for sales into high-end data cell phones. These factors resulted in lower growth expectations for the reporting unit and triggered the goodwill impairment. An impairment review requires a two-step process. The first step of the review compares the fair value of the reporting units with substantial goodwill against their aggregate carrying values, including goodwill. The company estimated the fair value of the WCCG and ICG reporting units using the income method of valuation, which included the use of estimated discounted cash flows. Based on the comparison, the carrying value of the WCCG reporting unit exceeded the fair value. Accordingly, the company performed the second step of the test, comparing the implied fair value of the WCCG reporting unit's goodwill with the carrying amount of that goodwill. Based on this assessment, the company recorded a non-cash impairment charge of $611 million in 2003, which was included as a component of operating income in the "all other" category for segment reporting purposes.

Also during 2003, the goodwill related to one of the company's small seed businesses, included in the "all other" category, was impaired. In addition, goodwill in the ICG operating segment decreased, primarily as a result of goodwill allocated to divestitures on a fair value basis in 2003. During 2004, the company recorded goodwill of $29 million ($3 million in 2003) in connection with a qualifying business combination. In 2004, as a result of a change in estimate associated with deferred tax assets of certain previous acquisitions, goodwill in the ICG operating segment decreased.

Table of Contents

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 15: Identified Intangible Assets and Acquisition–Related Unearned Stock Compensation

Identified intangible assets acquired during 2004 and 2003 are summarized as follows:

	2004		2003	
(In Millions)	Value	Weighted Average Life	Value	Weighted Average Life
Acquisition–related developed technology	$ 18	4	$ 14	4
Other acquisition–related intangibles	28	3	40	2
Intellectual property assets	250	8	96	5
Total identified intangible assets	$296		$150	

In 2004, the company entered into certain arrangements related to the hiring of a group of employees which resulted in the recording of workforce–in–place of $28 million. Also in 2004, the company acquired $18 million in developed technology in connection with an acquisition qualifying as a business combination (see "Note 13: Acquisitions and Divestitures")

Of the intellectual property assets acquired in 2004, $63 million represented the value of assets capitalized as a result of payments under the settlement agreement with Intergraph Corporation related to the lawsuit in Texas (see "Note 18: Contingencies") The value of the Intergraph assets was derived from the expected future revenue from Intel microprocessors, Intel chipsets and Intel motherboards sold in combination. Also during 2004, the company entered into a cross–license agreement for cash consideration of $143 million, which will be amortized over a period of 10 years.

Identified intangible assets as of December 25, 2004 consisted of the following:

(In Millions)	Gross Assets	Accumulated Amortization	Net
Acquisition–related developed technology	$ 631	$ (514)	$117
Other acquisition–related intangibles	91	(45)	46
Intellectual property assets	799	(285)	514
Total identified intangible assets	$1,521	$ (844)	$677

Identified intangible assets as of December 27, 2003 consisted of the following:

(In Millions)	Gross Assets	Accumulated Amortization	Net
Acquisition–related developed technology	$ 994	$ (772)	$222
Other acquisition–related intangibles	94	(49)	45
Intellectual property assets	604	(212)	392
Total identified intangible assets	$1,692	$ (1,033)	$659

Amortization of acquisition–related intangibles and costs included the following:

(In Millions)	2004	2003	2002
Amortization of acquisition–related intangibles	$150	$203	$246
Impairment of acquisition–related intangibles	—	—	127
Amortization of acquisition–related unearned stock compensation	16	39	90
Other acquisition–related costs	13	59	85
Total	$179	$301	$548

Table of Contents

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Acquisition–related intangible impairments of $127 million in 2002 related to a portion of the developed technology acquired with the Xircom acquisition and he acquisition of Trillium Digital Systems, Inc. The impaired developed technology of Xircom primarily related to PC Ethernet cards, whose forecasted revenue declined significantly as the market moved to LAN–on–motherboard technology. The impaired developed technology of Trillium related primarily to a change in the product roadmap for telephony operating–systems software that resulted in a significant decline in forecasted revenue for that technology The amount of the impairments was determined using a fair–value approach based on discounted future cash flows.

The company records acquisition–related purchase consideration as unearned stock–based compensation in accordance with FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation" During 2004 and 2003, the company recorded no such unearned stock–based compensation. Acquisition–related unearned stock compensation includes the portion of the purchase consideration related to shares issued contingent upon the continued employment of selected employee stockholders and/or the completion of specified milestones. The unearned stock–based compensation also includes the intrinsic value of stock options assumed in connection with business combinations that is earned as the employees provide future services. The compensation is being recognized over the period earned, and the expense is included in the amortization of acquisition–related intangibles and costs.

Other acquisition–related costs include the amortization of deferred cash payments that represent contingent compensation to employees related to previous acquisitions The compensation is being recognized over the period earned All amortization of acquisition–related intangibles and costs, including impairments, is included in "all other" for segment reporting purposes.

Amortization of intellectual property assets was $120 million in 2004 ($118 million in 2003 and $120 million in 2002). The amortization of an intellectual property asset is generally included in either cost of sales or research and development

Based on the carrying value of identified intangible assets recorded at December 25, 2004, and assuming no subsequent impairment of the underlying assets, the annual amortization expense is expected to be as follows:

(In Millions)	2005	2006	2007	2008	2009
Acquisition–related intangibles	$115	$ 35	$ 12	$ 1	$ —
Intellectual property assets	$115	$106	$ 76	$67	$ 39

Note 16: Impairment of Long–Lived Assets

During 2003, the company substantially completed the wind–down of its Intel® Online Services web hosting business. The company recognized a related $131 million pre–tax charge in cost of sales, of which $106 million was recorded in 2002, and the remainder was recorded in 2003 due to an increase in the estimate of ssets that would no longer be utilized. Approximately $123 million of the charge related to the impairment of the web hosting business' assets, including asehold improvements and server equipment. The amount of the impairment was determined based on discounted future cash flows and comparable market prices. The remaining $8 million represented the accrual of lease and other exit–related costs. The total charge was reflected in the "all other" category for segment reporting purposes For both 2003 and 2002, the operating results of this business were not significant to the results of the company.

Note 17: Commitments

The company leases a portion of its capital equipment and certain of its facilities under operating leases that expire at various dates through 2026. Rental expense was $136 million in 2004, $149 million in 2003 and $163 million in 2002. Minimum rental commitments under all non–cancelable leases with an initial term in excess of one year are payable as follows: 2005—$124 million; 2006—$82 million; 2007—$56 million; 2008—$43 million; 2009—$36 million; 2010 and beyond—$222 million. Commitments for construction or purchase of property, plant and equipment approximated $2.8 billion at December 25, 2004. Capital purchase obligations increased from $1.5 billion at December 27, 2003 to $2.8 billion at December 25, 2004, primarily due to purchase obligations for capital equipment relating to next–generation 65–nanometer process technology. Other commitments as of December 25, 2004 totaled $687 million. Other commitments primarily included payments due under various types of licenses and non–contingent funding obligations, such as co–marketing and co–development initiatives.

Table of Contents

Note 18: Contingencies

'ax Matters

In August 2003, in connection with the IRS's regular examination of Intel's tax returns for the years 1999 and 2000, the IRS proposed certain adjustments primarily related to the amounts reflected by Intel on these returns as a tax benefit for its export sales. In January 2005, the IRS issued formal assessments for these adjustments. The company does not agree with these adjustments and intends to appeal these assessments. If the IRS prevails in its position, Intel's federal income tax due for these years would increase by approximately $600 million, plus interest The IRS may make similar claims for years subsequent to 2000 in future audits.

Although the final resolution of the adjustments is uncertain, based on currently available information, management believes that the ultimate outcome will not have a material adverse effect on the company's financial position, cash flows or overall trends in results of operations. There is the possibility of a material adverse impact on the results of operations of the period in which the matter is ultimately resolved, if it is resolved unfavorably, or in the period in which an unfavorable outcome becomes probable and reasonably estimable

Legal Proceedings

In 1997, Intergraph Corporation filed suit in Federal District Court in Alabama, generally alleging, among other claims, that Intel infringed certain Intergraph patents. In 2001, Intergraph filed a second suit in the U S District Court for the Eastern District of Texas, alleging that Intel infringed additional Intergraph patents, and seeking an injunction and unspecified damages In 2002, Intel and Intergraph entered into a settlement agreement, pursuant to which they agreed to settle the Alabama lawsuit and dismiss it with prejudice. Pursuant to the 2002 settlement agreement, Intel made a cash payment of $300 million to Intergraph and received a license under all Intergraph patents, excluding the patents at issue in the Texas case

Under the 2002 settlement agreement, if the patents in the Texas case were found to be infringed, Intel would pay Intergraph $150 million. If Intergraph prevailed on either patent on appeal, the 2002 settlement agreement provided that Intel would pay Intergraph an additional $100 million and receive a license for the patents at issue in the case. In 2002, the Texas District Court ruled that Intel infringed both patents at issue in that case. Pursuant to the settlement agreement, Intel paid Intergraph $150 million. Intel then appealed the decision. In February 2004, the Court of Appeals for the Federal Circuit found that the District Court had erred, and remanded the case to the District Court to determine in the first instance whether the patents at issue had been infringed

In 2002, Intergraph filed suit in the Eastern District of Texas against Dell Inc , Gateway Inc. and Hewlett–Packard Company, alleging infringement of three of Intergraph's patents. These three patents are a subset of the patents that were the subject of the Alabama lawsuit that Intergraph had filed against Intel. In 2003, Dell filed its answer and counterclaim and named Intel as well as Intergraph in a counterclaim for declaratory judgment.

In March 2004, Intel and Intergraph entered into a second settlement agreement, pursuant to which they agreed to settle the Texas lawsuit, and Intergraph agreed to dismiss Intergraph's separate pending litigation against Dell Inc The Texas case and Intergraph's claims against Dell in the Eastern District case were dismissed with prejudice. Pursuant to the 2004 settlement agreement, Intel will pay Intergraph a total of $225 million, with $125 million paid in April 2004 and !5 million paid in each of the following four quarters. Also pursuant to the 2004 settlement agreement, Intergraph granted Dell a license under patents filed prior to April 4, 2012 to sell Dell products, including Dell computer systems that contain Intel microprocessors. The 2004 settlement agreement further provided that Intergraph is entitled to retain the $150 million previously paid by Intel pursuant to the 2002 settlement agreement, but that no additional $100 million payment would be required under the 2002 settlement agreement. The 2004 settlement agreement also includes additional license rights in favor of Intel and Intel's customers and a covenant by Intergraph not to sue any Intel customer for products that include Intel microprocessors, Intel chipsets and Intel motherboards in combination. As a result of the 2004 settlement agreement, Intel recorded a $162 million charge to cost of sales in the first quarter of 2004. The remaining balance of $63 million represented the value of intellectual property assets acquired as part of the settlement. This balance will be amortized over the assets' remaining useful lives.

In March 2004, MicroUnity, Inc. filed suit against Intel and Dell Inc. in the Eastern District of Texas MicroUnity claims that Intel® Pentium® III, Pentium® 4, Pentium® M and Itanium® 2 microprocessors infringe seven MicroUnity patents, and that certain Intel chipsets infringe one MicroUnity patent. MicroUnity also alleges that Dell products that contain these Intel products infringe the same patents. At Dell's request, Intel agreed to indemnify Dell with respect to MicroUnity's claims against Dell, subject to the terms of a prior agreement between Intel and Dell MicroUnity seeks an injunction, unspecified damages and attorneys' fees against both Intel and Dell. Intel disputes MicroUnity's claims and intends to defend the lawsuit vigorously.

In June 2002, various plaintiffs filed a lawsuit in the Third Judicial Circuit Court, Madison County, Illinois, against Intel, Hewlett-Packard Company, HPDirect, ıc and Gateway Inc , alleging that the defendants' advertisements and statements misled the public by suppressing and concealing the alleged material fact that systems containing Intel Pentium 4 microprocessors are less powerful and slower than systems containing Intel Pentium III microprocessors and a competitor's microprocessors. In July 2004, the Court certified against Intel an Illinois-only class of certain end use purchasers of certain Pentium 4 microprocessors or computers containing such microprocessors The Court denied plaintiffs' motion for reconsideration of this ruling In January 2005, the Court granted a motion filed jointly by the plaintiffs and Intel that stayed the proceedings in the trial court pending discretionary appellate review of the Court's class certification order The plaintiffs and Intel thereafter filed a joint application for discretionary appeal of the trial court's class certification ruling The plaintiffs seek unspecified damages, and attorneys' fees and costs. Intel disputes the plaintiffs' claims and intends to defend the lawsuit vigorously.

The company is currently a party to various claims and legal proceedings, including those noted above. If management believes that a loss arising from these matters is probable and can reasonably be estimated, the company records the amount of the loss, or the minimum estimated liability when the loss is estimated using a range, and no point within the range is more probable than another As additional information becomes available, any potential liability related to these matters is assessed and the estimates are revised, if necessary. Based on currently available information, management believes that the ultimate outcome of these matters, individually and in the aggregate, will not have a material adverse effect on the company's financial position, cash flows or overall trends in results of operations However, litigation is subject to inherent uncertainties, and unfavorable rulings could occur An unfavorable ruling could include monetary damages or an injunction prohibiting Intel from selling one or more products If an unfavorable ruling were to occur, there exists the possibility of a material adverse impact on the results of operations of the period in which the ruling occurs, or future periods.

Intel has been named to the California and U.S. Superfund lists for three of its sites and has completed, along with two other companies, a Remedial Investigation/Feasibility study with the U.S. Environmental Protection Agency (EPA) to evaluate the groundwater in areas adjacent to one of its former sites. The EPA has issued a Record of Decision with respect to a groundwater cleanup plan at that site, including expected costs to complete. Under the California and U.S Superfund statutes, liability for cleanup of this site and the adjacent area is joint and several The company, however, has reached agreement with those same two companies which significantly limits the company's liabilities under the proposed cleanup plan Also, the company has completed extensive studies at its other sites and is engaged in cleanup at several of these sites. In the opinion of management, the potential losses to the company arising out of these matters would not have a material adverse effect on the company's financial position or overall trends in results of operations, even if joint and several liability were to be assessed

The estimate of the potential impact on the company's financial position, cash flows or overall results of operations for the above tax matters and legal and environmental proceedings could change in the future

Note 19: Operating Segment and Geographic Information

Beginning in 2004, the company combined its communications-related businesses into a single organization, the Intel Communications Group (ICG). Previously, these communications businesses were in two separate product-line operating segments: the former Intel Communications Group and the Wireless Communications and Computing Group (WCCG) The company now consists of two product-line operating segments: the Intel Architecture business, which is composed of the Desktop Platforms Group, the Mobile Platforms Group and the Enterprise Platforms Group; and ICG All prior-period amounts have been stated to reflect the new presentation as well as certain minor reorganizations effected during 2004.

The company's Executive Office consists of Chief Executive Officer (CEO) Craig R. Barrett and President and Chief Operating Officer (COO) Paul S. Otellini. The CEO and COO have joint responsibility as the Chief Operating Decision Maker (CODM), as defined by SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." The CODM allocates resources to and assesses the performance of each operating segment using information about their revenue and operating profit before interest and taxes.

The Intel Architecture operating segment's products include microprocessors and related chipsets and motherboards. Net revenue for the Intel Architecture operating segment made up approximately 85% of the company's consolidated net revenue in 2004 (87% in 2003 and 83% in 2002). Revenue from sales of microprocessors within the Intel Architecture operating segment represented 72% of consolidated net revenue in 2004 (73% in 2003 and 70% in 2002). ICG's products include flash memory, wired and wireless

Table of Contents

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

connectivity products, communications infrastructure components such as network and embedded processors and optical components, microcontrollers, pplication and cellular processors used in cellular handsets and handheld computing devices, and cellular baseband chipsets. The company's products in both operating segments are sold directly to original equipment manufacturers, and through retail and industrial distributors as well as reseller channels throughout the world.

In addition to these operating segments, the company has sales and marketing, manufacturing, finance and administration groups Expenses of these groups are allocated to the operating segments and are included in the operating results reported below.

The "all other" category includes acquisition-related costs, including amortization and any impairments of acquisition-related intangibles and goodwill and charges for purchased in-process research and development. In 2003, acquisition-related costs included a goodwill impairment charge of $611 million for the remaining goodwill balance related to the former WCCG, and in 2002 included a $127 million impairment of acquisition-related identified intangibles related to prior-year acquisitions "All other" also includes the results of operations of seed businesses that support the company's initiatives, and the results for 2002 included a charge of $106 million related to the wind-down of the Intel Online Services web hosting business. Finally, "all other" includes certain corporate-level operating expenses, including a portion of profit-dependent bonus and other expenses not allocated to the operating segments

The company does not identify or allocate assets by operating segment, and does not allocate depreciation as such to the operating segments, nor does the CODM evaluate operating segments on these criteria. Operating segments do not record intersegment revenue, and, accordingly, there is none to be reported. The company does not allocate interest and other income, interest expense or taxes to operating segments Although the CODM uses operating income to evaluate the segments, operating costs included in one segment may benefit other segments. Except as discussed above, the accounting policies for segment reporting are the same as for the company as a whole.

In January 2005, the company announced a planned reorganization of its business groups to bring all major product groups in line with the company's strategy to drive development of complete technology platforms. These new business units include the Mobility Group, the Digital Enterprise Group, the Digital Home Group, the Digital Health Group and the Channel Platforms Group. This reorganization is expected to become effective in 2005. Because this reporting period is as of December 25, 2004, the operating segment information below is presented under the organizational structure that existed as of December 25, 2004

Net revenue and operating income or loss for operating segments for the three years ended December 25, 2004 were as follows:

(In Millions)	2004	2003	2002
Intel Architecture Business			
Net revenue	$ 29,167	$ 26,178	$ 22,347
Operating income	$ 12,067	$ 10,354	$ 6,498
Intel Communications Group			
Net revenue	$ 5,027	$ 3,928	$ 4,288
Operating loss	$ (791)	$ (824)	$ (817)
All Other			
Net revenue	$ 15	$ 35	$ 129
Operating loss	$ (1,146)	$ (1,997)	$ (1,299)
Total			
Net revenue	$ 34,209	$ 30,141	$ 26,764
Operating income	$ 10,130	$ 7,533	$ 4,382

In 2004, one customer accounted for approximately 19% of the company's net revenue (19% in 2003 and 16% in 2002) while another customer accounted for approximately 16% in 2004 (15% in both 2003 and 2002) A substantial majority of the sales to these customers were products from the Intel Architecture business

Geographic revenue information for the three years ended December 25, 2004 is based on the location of the customer. Property, plant and equipment information is based on the physical location of the assets at the end of each of the fiscal years.

Table of Contents

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Revenue from unaffiliated customers by geographic region/country was as follows:

(In Millions)	2004	2003	2002
United States	$ 6,563	$ 7,644	$ 7,698
Other Americas†	1,402	759	950
	7,965	8,403	8,648
Taiwan†	5,391	4,405	2,854
China†	4,651	3,679	3,199
Other Asia–Pacific†	5,338	4,077	4,020
	15,380	12,161	10,073
Europe†	7,755	6,868	6,139
Japan†	3,109	2,709	1,904
Total revenue	**$34,209**	**$30,141**	**$26,764**

† *Revenue from unaffiliated customers outside the U.S. totaled $27,646 million in 2004 ($22.497 million in 2003 and $19,066 million in 2002).*

Net property, plant and equipment by country was as follows:

(In Millions)	2004	2003	2002
United States	$11,265	$12,483	$14,518
Ireland†	2,365	2,392	1,405
Other countries†	2,138	1,786	1,924
Total property, plant and equipment, net	**$15,768**	**$16,661**	**$17,847**

† *Net property. plant and equipment outside the U.S totaled $4,503 million in 2004 ($4,178 million in 2003 and $3.329 million in 2002)*

Table of Contents

REPORT OF ERNST & YOUNG LLP, INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders, Intel Corporation

We have audited the accompanying consolidated balance sheets of Intel Corporation as of December 25, 2004 and December 27, 2003, and the related ›nsolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 25, 2004. Our audits also ›ncluded the financial statement schedule listed in the Index at Part IV, Item 15. These financial statements and schedule are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Intel Corporation at December 25, 2004 and December 27, 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 25, 2004, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Intel Corporation's internal control over financial reporting as of December 25, 2004, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 15, 2005 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

San Jose, California
February 15, 2005

Table of Contents

REPORT OF ERNST & YOUNG LLP, INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders, Intel Corporation

We have audited management's assessment, included in the accompanying Management Report on Internal Control Over Financial Reporting, that Intel Corporation maintained effective internal control over financial reporting as of December 25, 2004, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Intel Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Intel Corporation maintained effective internal control over financial reporting as of December 25, 2004, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Intel Corporation maintained, in all material respects, effective internal control over financial reporting as of December 25, 2004, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the 2004 consolidated financial statements of Intel Corporation and our report dated February 15, 2005 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Jose, California
February 15, 2005

Table of Contents

INTEL CORPORATION
FINANCIAL INFORMATION BY QUARTER (UNAUDITED)

(In Millions—Except Per Share Amounts) 2004 For Quarter Ended	December 25	September 25	June 26	March 27
Net revenue	$ 9,598	$ 8,471	$8,049	$ 8,091
Gross margin	$ 5,377	$ 4,719	$4,780	$ 4,870
Net income[1]	$ 2,123	$ 1,906	$1,757	$ 1,730
Basic earnings per share[1]	$ 0.34	$ 0.30	$ 0.27	$ 0.27
Diluted earnings per share[1]	$ 0.33	$ 0.30	$ 0.27	$ 0.26
Dividends per share				
Declared	$ —	$ 0.08	$ —	$ 0.08
Paid	$ 0 04	$ 0.04	$ 0.04	$ 0.04
Market price range common stock[2]				
High	$ 24.80	$ 27.60	$28.99	$ 34.24
Low	$ 19.68	$ 19.72	$25.73	$ 26.16

(In Millions—Except Per Share Amounts) 2003 For Quarter Ended	December 27	September 27	June 28	March 29
Net revenue	$ 8,741	$ 7,833	$6,816	$ 6,751
Gross margin	$ 5,556	$ 4,558	$3,468	$ 3,512
Impairment of goodwill	$ 611	$ —	$ 6	$ —
Net income[3]	$ 2,173	$ 1,657	$ 896	$ 915
Basic earnings per share[3]	$ 0.33	$ 0.25	$ 0.14	$ 0.14
Diluted earnings per share[3]	$ 0.33	$ 0.25	$ 0.14	$ 0.14
Dividends per share				
Declared	$ —	$ 0.04	$ —	$ 0.04
Paid	$ 0.02	$ 0.02	$ 0.02	$ 0.02
Market price range common stock[2]				
High	$ 34.12	$ 29.18	$22.14	$ 18.90
Low	$ 27.52	$ 20 81	$16 28	$ 15 05

[1] *Net income for the quarter ended September 25. 2004 included $195 million in tax benefits related to export sales and state tax benefits for divestitures that exceeded the amounts originally estimated in connection with the 2003 provision, increasing both basic and diluted earnings per share by $0 03. Net income for the quarter ended June 26. 2004 included $62 million in tax benefits related to the reversal of previously accrued taxes related primarily to the closing of a state income tax audit. increasing both basic and diluted earnings per share by $0 01*

[2] *Intel's common stock (symbol INTC) trades on The NASDAQ Stock Market* and is quoted in the* Wall Street Journal *and other newspapers Intel's common stock also trades on The Swiss Exchange. At December 25, 2004, there were approximately 230.000 registered holders of common stock All stock prices are closing prices per The NASDAQ Stock Market*

[3] *Net income for the quarter ended December 27, 2003 included $620 million in tax benefits related to divestitures. increasing both basic and diluted earnings per share by $0 09*

Table of Contents

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable

ITEM 9A. CONTROLS AND PROCEDURES

Attached as exhibits to this Form 10-K are certifications of Intel's Chief Executive Officer (CEO) and Chief Financial Officer (CFO), which are required in accordance with Rule 13a-14 of the Securities Exchange Act of 1934, as amended (the Exchange Act). This "Controls and Procedures" section includes information concerning the controls and controls evaluation referred to in the certifications. Part II, Item 8 of this Form 10-K sets forth the report of Ernst & Young LLP, our independent registered public accounting firm, regarding its audit of Intel's internal control over financial reporting and of management's assessment of internal control over financial reporting set forth below in this section This section should be read in conjunction with the certifications and the Ernst & Young report for a more complete understanding of the topics presented.

Evaluation of Disclosure Controls and Procedures

We conducted an evaluation of the effectiveness of the design and operation of our "disclosure controls and procedures" (Disclosure Controls) as of the end of the period covered by this Form 10-K. The controls evaluation was conducted under the supervision and with the participation of management, including our CEO and CFO. Disclosure Controls are controls and procedures designed to reasonably assure that information required to be disclosed in our reports filed under the Exchange Act, such as this Form 10-K, is recorded, processed, summarized and reported within the time periods specified in the U S. Securities and Exchange Commission's (SEC's) rules and forms. Disclosure Controls are also designed to reasonably assure that such information is accumulated and communicated to our management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure Our quarterly evaluation of Disclosure Controls includes an evaluation of some components of our internal control over financial reporting, and internal control over financial reporting is also separately evaluated on an annual basis for purposes of providing the management report which is set forth below

The evaluation of our Disclosure Controls included a review of the controls' objectives and design, the company's implementation of the controls and the effect of the controls on the information generated for use in this Form 10-K In the course of the controls evaluation, we reviewed identified data errors, control problems or acts of fraud and sought to confirm that appropriate corrective actions, including process improvements, were being undertaken This type of evaluation is performed on a quarterly basis so that the conclusions of management, including the CEO and CFO, concerning the effectiveness of the Disclosure Controls can be reported in our periodic reports on Form 10-Q and Form 10-K. Many of the components of our Disclosure Controls are also evaluated on an ongoing basis by our Internal Audit Department and by other personnel in our Finance and Enterprise Services organization. The overall goals of these various evaluation activities are to monitor our Disclosure Controls, and to modify them as necessary Our intent is to maintain the Disclosure Controls as dynamic systems that change as conditions warrant

Based upon the controls evaluation, our CEO and CFO have concluded that, subject to the limitations noted in this Part II, Item 9A, as of the end of the period covered by this Form 10-K, our Disclosure Controls were effective to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified by the SEC, and that material information relating to Intel and its consolidated subsidiaries is made known to management, including the CEO and CFO, particularly during the period when our periodic reports are being prepared

Management Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles Internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Management assessed our internal control over financial reporting as of December 25, 2004, the end of our fiscal year Management based its assessment on criteria established in Internal Control-Integrated Framework issued by the Committee of